
NDD-22 CANCEL FUNDING FOR A SPACE SHUTTLE
TO REPLACE THE CHALLENGER

Savings from CBO Baseline	Annual Savings (millions of dollars)				Cumulative Five-Year Savings
	1988	1989	1990	1991	1992
Budget Authority	0	0	0	0	0
Outlays	220	600	620	450	150
					2,040

The National Aeronautics and Space Administration (NASA) has received funding to replace the space shuttle Challenger, which was lost in an accident on January 28, 1986, and return the shuttle fleet to its preaccident level of four orbiters. At the same time, current policy has reduced the role of the shuttle system from primary U.S. launch vehicle to a status equal to various expendable launch vehicles (ELVs).

To create a balanced national launch capacity, the Department of Defense is buying two new types of ELVs and refurbishing a third, ensuring an annual capacity equivalent to 12 shuttle flights a year by 1990. If the three orbiters in the shuttle fleet can provide an additional 9 to 12 flights a year, the total annual U.S. launch capacity will be 21 to 24 equivalent shuttle flights by 1990. Canceling the procurement of a new orbiter would save \$2 billion through 1992, but would deprive the shuttle system of an additional three or four flights' worth of capacity through the 1990s.

Proponents of canceling procurement of the orbiter claim that a new orbiter would be underused during the 1990s. If so, the near-term expenditures to buy an orbiter would not be justified by the later savings of operating a fourth orbiter rather than using additional ELVs to meet launch demand. Large increases in the demand for space launches are projected for the late 1980s and through the 1990s. However, the projected demand for space launches has consistently exceeded actual demand, and current projections may not be realized. The loss of the Challenger further reduces launch demand by diverting public funds from payload development to fixing the shuttle system and by increasing the cost of space transportation in general. These factors reduce the annual demand for space launches to a level that can be met by the existing three orbiters and the ELVs.

Advocates of purchasing an additional orbiter offer several arguments to support their view. They maintain that future launch demand will require a replacement orbiter to make an average of four flights a year during the 1990s, making an orbiter less costly than comparable ELV service. The current plan of the space station (see NDD-21) to use only orbiters in building and resupplying the space station also supports a replacement orbiter. Implementing this plan would leave very little shuttle capacity for military or other civilian use if the fleet is restricted to three orbiters. Proponents also point to the value of increasing the capacity of the shuttle system to assure access to space in the event that another orbiter is lost or grounded for a prolonged period. Finally, they point out that the current procurement represents the last chance to buy an orbiter because production lines will be permanently shut down if the orbiter is canceled.

NDD-23 ELIMINATE PURCHASES FOR THE
STRATEGIC PETROLEUM RESERVE

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1988	1989	1990	1991	1992	
Budget Authority	430	470	530	500	530	2,460
Outlays	330	460	510	520	520	2,340

The Department of Energy (DOE) is responsible for the construction and maintenance of the Strategic Petroleum Reserve (SPR) and for the acquisition of oil to fill the reserve. Scaling back planned capital improvements and imposing a moratorium on further oil purchases could save up to \$2.3 billion over the 1988-1992 period.

The original intent of the SPR, authorized in 1975, was to mitigate the economic problems that can result from full or partial interruption of oil imports to the United States. It therefore functions as an economic "insurance policy" that could help maintain U.S. output in the event of a severe oil shortage. The SPR will contain roughly 530 million barrels of crude oil by the end of 1987, with 750 million barrels being the eventual goal. Additional unobligated balances of funds for oil purchases would allow DOE to fill the reserve to a level of approximately 540 million barrels. At that level, the SPR could meet current U.S. demand for oil imports for roughly 100 days (about 35 days of total U.S. demand). Today, the U.S. economy depends less on imported petroleum than it did in the late 1970s, and oil supplies are abundant and available from various sources. In fact, a reserve of 750 million barrels would have covered fewer than 100 days of demand during the peak years of oil imports, 1977 through 1979.

In light of these shifts in the oil market, further purchases for the SPR could be suspended, saving approximately \$2.2 billion in outlays over the 1988-1992 period. In addition, planned improvements to the physical plant and distribution system could be eliminated, saving \$170 million over the five-year period.

Although the current status of energy markets may reduce the need for a larger reserve (and low oil prices reduce the market value of the

current reserve), low oil prices also make filling the SPR cheaper, and therefore present an opportunity to achieve the original target at lower cost. In addition, the SPR can be thought of as a public asset; continuing to fill it may represent an attractive investment should oil prices increase in the near future.

NDD-24 MODIFY THE DAVIS-BACON ACT BY RAISING
THE CONTRACT THRESHOLD AND ALLOWING
UNRESTRICTED USE OF HELPERS

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1988	1989	1990	1991	1992	
Budget Authority	640	660	680	710	740	3,430
Outlays	140	390	530	590	640	2,290

Since 1935 the Davis-Bacon Act has required that "prevailing wages" be paid on all federally funded or assisted construction projects of \$2,000 or more. Procedures for determining prevailing wages in the construction area, and the classifications of workers receiving them, in some cases favor union wage rates, although recent changes in regulations have lessened this effect. The act also restricts use of lower-wage, less-skilled workers such as helpers. Under current regulations, wages for helpers are usually not determined separately, with the result that most workers on covered projects are paid journeymen's wages.

Federal outlays for construction could be reduced by raising the threshold for determining projects to be covered by Davis-Bacon, by allowing unrestricted use of helpers, or by doing both. The specific option depicted in the table would raise the threshold from \$2,000 to \$250,000 and allow unrestricted use of helpers. These measures would reduce outlays by about \$140 million in 1988 and by about \$2.3 billion over the 1988-1992 period. Most of the savings would result from the increased use of helpers; allowing their unrestricted use, while not changing the threshold, would reduce outlays by about \$2.1 billion over this five-year period. (Allowing unrestricted use of helpers and raising the threshold to \$25,000 or to \$1 million would reduce outlays over this five-year period by about \$2.2 billion, or \$2.6 billion, respectively.)

Proponents of relaxing Davis-Bacon standards contend that the act artificially drives up the cost of federal construction projects. Besides reducing outlays for construction, unrestricted use of helpers probably would increase employment opportunities for less-skilled workers on federal projects. Raising the threshold to \$250,000 would exclude about 7 percent of

the value of all contracts currently covered by the act. (Setting the threshold at \$25,000 would exclude only 1 percent, and setting it at \$1 million would exclude about 20 percent.)

Opponents of modifying the act contend that such changes would lower the wages of construction workers. They also argue that relaxing Davis-Bacon standards could jeopardize the quality of federally funded or assisted construction projects.

FEDERAL WORK FORCE

The equivalent of 5.4 million full-time civilian and military employees now work for the federal government. Outlays in 1987 to pay these employees and to cover benefit disbursements, including those for former employees and their families, will total about \$186 billion (see Table II-3). Pay for postal employees, which is mainly determined through collective bargaining, accounts for approximately \$22 billion of this amount. The \$164 billion remaining represents 16 percent of total budget outlays and is subject to periodic Congressional review. Under CBO's baseline, five-year spending for pay (excluding that of postal workers) and for fringe benefits is projected to increase nearly \$135 billion through 1992. This projection assumes that non-postal employment remains at its current level. More than four-fifths of the additional compensation outlays is attributable both to pay adjustments that are assumed to keep pace with raises in the private sector (\$69 billion) and to greater disbursements for federal civilian and military retirement (\$44 billion). The growth in retirement outlays derives mainly from increases in the number of annuitants, larger initial annuities because of higher career earnings, and postretirement cost-of-living adjustments (COLAs).

In carrying out its budgetary and appropriation responsibilities, the Congress makes decisions on a wide array of program activities that make up the federal budget. Such programmatic decisions, of course, affect the total level of federal personnel resources required in future years. (For example, see option DEF-18 in the National Defense section of this report and option NDD-16 in the Nondefense Discretionary Spending section.) The Congress also considers various measures specifically aimed at changing the size of the work force or the compensation it receives. The opportunities for achieving further budgetary reductions, however, diminish because of measures already taken. Recent Congressional actions, outlined below, reflect responses to often competing national priorities--meeting federal program requirements in defense and nondefense areas, seeking fair treatment of federal workers and retirees, assuring a qualified federal work force, and helping to reduce federal spending.

Size of the Work Force. In recent years, federal civilian employment in nonpostal agencies has held steady at about 2.2 million. Reductions for nondefense agencies have offset increases at the Department of Defense (DoD). Since 1980, DoD has hired the equivalent of 160,000 full-time civilian workers. (Postal employment, which is independent of the job ceilings used at other agencies, has increased rapidly in the last year in response to the growing workload.) The Administration's efforts to expand contracting out and to dismantle selected agencies would reduce federal employment, but the Congress has resisted such efforts. In addition, some agencies, such as the Internal Revenue Service and the Customs Service, were authorized to add many more jobs than the President requested.

TABLE II-3. FEDERAL WORK FORCE AND COMPENSATION:
FISCAL YEAR 1987

Personnel	Total Employment <u>a/</u> (In thousands)	Payout Costs (In billions of dollars) <u>b/</u>		
		Payroll	Retirement and Other Benefits	Total
Nonpostal				
Uniformed military	2,434	37.6	30.8	68.4
Civilian	<u>2,200</u>	<u>60.2</u>	<u>28.1</u>	<u>88.3</u>
Subtotal	4,634	97.8	58.9	156.7
Postal Service	<u>805</u>	<u>22.1</u>	<u>7.0</u>	<u>29.1</u>
Total	5,439	119.9	65.9	185.8

SOURCE: Congressional Budget Office.

- a. Estimates of the work force represent the equivalent of full-time employment under a regular 40-hour week. On this basis, estimates of uniformed military personnel include active duty, reserve, and national guard forces for both civilian and defense agencies.
- b. Amounts represent gross disbursements to current employees, federal retirees, and their survivors. Payouts to this group from Social Security trust funds are excluded because they cannot be identified.

Pay Raises for Active Workers. Continuing past practice of restraining the size and timing of annual pay raises, the Congress delayed for three months the 1987 pay raise for all workers and capped it at 3 percent. (The President had proposed an across-the-board increase of 2 percent with a three-month delay for civilian workers, and a 4 percent military adjustment, without delay, effective October 1986.) The limitations were adopted mainly to aid budgetary objectives, despite proposals to make greater use of basing pay on performance and despite indications that federal salary levels remain well below pay rates for comparable private-sector jobs.

Cost-of-Living Increases for Current Federal Retirees. The Congress enacted legislation that protects future COLAs for federal retirees from being suspended under provisions of the Balanced Budget Act. The 1986 sequester mechanism, by contrast, eliminated that year's COLAs for military and civilian annuitants while benefits for Social Security recipients were allowed to increase by 3.1 percent.

Benefits for Future Retirees. Last year the Congress enacted major reforms in the military and civilian retirement systems (Public Laws 99-348 and 99-335). Initial benefits are reduced for future military employees who retire after 20 years of service, and for civilian annuitants retiring with less than 20 years of service and before age 62. The retirement package available to new civilian workers (as well as tenured workers electing to switch systems) includes Social Security coverage, a pension with defined but less generous benefits, and a voluntary thrift savings plan that includes employer matching contributions. In addition, unused sick leave is excluded when calculating initial benefits, the benefit subsidy for surviving spouses is tightened, and--most significant--COLAs are eliminated for nondisabled retirees before age 62. Overall, the three-tier combination of benefits for newly hired federal civilian employees reduces the government's actuarial costs for retirement by the equivalent of 3 percent of pay.

If the major pay and retirement actions noted above had not been taken by the Congress, the federal budget deficit projected by the CBO baseline would have been \$2.6 billion higher in 1988. In addition to the immediate deficit reduction, the government will realize significant long-term savings that derive mainly from retirement reforms. Despite these cutbacks in compensation, the size and associated costs of the federal work force still offer potential for additional near-term savings.

This section presents five options for reducing the government's costs for travel and for federal employee compensation--mainly pay and retirement benefits. The first option would alter the timing and distribution of across-the-board federal pay raises. FWF-02 addresses the outlay savings

that would result from restricting the payment of cost-of-living adjustments for nondisabled federal retirees under age 62. The next two options, FWF-03 and FWF-04, would reduce the costs of the Federal Employees Health Benefit Program and limit travel expenses. The final option would trim the size of the federal civilian work force without necessarily affecting federal services.

FWF-01 ALTER THE TIMING AND DISTRIBUTION
OF FEDERAL PAY RAISES

Savings from CBO Baseline	Annual Savings (millions of dollars)				Cumulative Five-Year Savings	
	1988	1989	1990	1991		1992
Budget Authority	590	1,250	1,450	1,700	1,750	6,740
Outlays	610	1,300	1,500	1,700	1,750	6,860

Changing the timing and the distribution of government pay raises could generate appreciable savings in the cost of federal pay. Savings would accumulate to about \$6.9 billion through 1992 if across-the-board yearly adjustments for military and civilian employees were delayed three months beginning in 1989, and if the basic payroll for most white-collar employees was permanently lowered by cutting two percentage points from the 3 percent across-the-board raise estimated for 1988. These savings would produce a permanent source of funds from which annual bonuses would be paid. Thus, some deserving employees could receive more compensation, after the first year, than permitted under current law. To realize budgetary savings in 1988, bonus payments would not begin until 1989. The bonuses would augment future across-the-board adjustments, which CBO assumes reflect private-sector pay raises. The agencies would distribute the bonuses in accordance with governmentwide criteria pertaining to performance and to recruitment and retention requirements.

Federal employees and their representatives would criticize this option because it would not narrow the gap between federal and private salaries for white-collar employees, now estimated at more than 20 percent. (Instead, the proposal actually widens the gap for many employees because a higher level of permanent pay for all workers is traded for only the prospect that some deserving employees might receive a bonus.) Only once during the past 11 years have the federal government's 1.6 million white-collar employees received an annual pay raise both at the normal time and at the levels prescribed under current law as necessary to make their pay comparable with private-sector rates for comparable jobs. The successive limitations on pay increases, culminating in a 1986 freeze on across-the-board adjustments, have been adopted mainly to reduce the budgetary costs of government operations. As a result of past austerity, today's salaries for federal jobs lag significantly behind estimated pay levels for similar work in the private sector--especially for professional and administrative positions.

While many question the accuracy of comparisons of salary levels, the rate of change in private-sector pay as measured by the Employment Cost Index indicates that federal salary adjustments have not kept pace. In the six years ending December 1986, the total increase in federal pay rates for most white-collar positions was 17 percent. The rise in private salaries and wages during this period was more than twice as large, and the cumulative adjustment in military pay was 32 percent. As a result, critics maintain the government has lost some of its most talented civilian workers and is unable to compete in hiring and retaining well-qualified college graduates. This option, they believe, would add to such problems.

Proponents of the option respond by pointing out that the pay of employees who consistently receive bonuses--because they occupy hard to fill positions or because of outstanding job performance--would actually be higher than under current law. Overall, the proposal would give agencies greater flexibility in rewarding outstanding workers and addressing recruitment and retention problems on a geographic and occupation-by-occupation basis. The use of bonuses to distribute pay is consistent with practices in some parts of the private sector and with measures taken by the federal government that emphasize case-by-case determinations rather than uniform across-the-board pay adjustments. Such measures include pay-for-performance demonstration projects at some agencies, merit pay plans for federal managers, and authority to pay above standard rates in certain situations. (The Administration's budget proposes to replace "within-grade" salary increases, which are usually granted automatically based on job tenure, with a pay-for-performance system.) In addition, maintaining a three-month delay for governmentwide pay raises would continue a precedent that first began in 1984 but ends in 1988 under current law. The delay, by itself, would generate outlay savings through 1992 of \$6.2 billion--about 9 percent of what federal workers would otherwise receive.

FWF-02 CAP COST-OF-LIVING ADJUSTMENTS
FOR FEDERAL RETIREES UNDER AGE 62

Savings from CBO Baseline	Annual Savings (millions of dollars)				Cumulative Five-Year Savings	
	1988	1989	1990	1991		1992
Military Retirement	80	200	330	480	640	1,730
Civilian Retirement	30	60	90	130	170	480
Total	110	260	420	610	810	2,210

The Civil Service Retirement (CSR) and Military Retirement (MR) systems provide benefits for about 3.6 million people at an annual cost of \$44 billion. About 55 percent of MR beneficiaries and 10 percent of CSR beneficiaries are nondisabled retirees under age 62. Benefit payments in 1987 for this relatively young group will exceed \$14 billion. Cost-of-living adjustments (COLAs) for federal retirees that begin before age 62 are fully paid for by the government and are expensive relative to adjustments available under the largest and most generous private pension plans.

This option, a two-step approach, would cap the annual COLAs for nondisabled retirees under age 62 at one percentage point below the inflation rate as measured by the Consumer Price Index (CPI), and would grant a catch-up raise at age 62 to account for inflation since retirement. It would provide full COLAs after age 62. (Although the catch-up adjustment restores the monthly pension to what it otherwise would have been at age 62, the annuitant is never compensated for the smaller benefit payments received during the time COLAs were capped.) The COLA limitation would cause outlays through 1992 to fall by \$2.2 billion--less than 1 percent of total outlays otherwise disbursed during the same period for the CSR and MR systems. About four-fifths of the losses would be taken by current retirees, and the rest by those retiring in the next five years.

Recently enacted military and civilian retirement reforms reduced the future cost of federal pensions for newly hired employees. The military system reforms curtail benefits for newly hired personnel by reducing most initial annuities and by capping COLAs at the rate of inflation less one percentage point (CPI-1%). But at age 62, in a manner consistent with this option, future military retirees will receive a catch-up adjustment that

restores the purchasing power lost since retirement. Nondisabled civilian retirees under the new system, on the other hand, will not receive any COLA until age 62, nor any catch-up raise for price increases since their retirement. For future civilian and military annuitants alike, COLAs awarded after age 62 are limited to CPI-1%. COLAs for individuals who remain covered by the old CSR and MR systems, by contrast, are unaffected and equal 100 percent of the CPI. (The President's budget proposes a CPI-1% COLA for CSR but not for MR annuitants.)

This option, if adopted, would moderate the differences between retirement benefits available to newly hired employees and those available to individuals covered by the CSR and MR systems. As such, it would reduce protection from inflation and thus real benefits for federal retirees of working age. The loss in retirement income would be especially pronounced for MR employees, who retire at an average age of 43. But at age 62 and beyond, COLAs for federal pensions would remain more generous, with the catch-up, than would the partial inflation protection for those receiving private pensions combined with Social Security. Less than half of the retirees in the private sector are covered, in addition to Social Security, by employer-provided pension plans. These individuals typically receive pension COLAs on an ad hoc basis, which eventually recover 30 percent to 40 percent of general price increases. Of course, Social Security COLAs are automatic and keep pace with inflation; but employees cannot draw Social Security retirement until after reaching age 62.

Because considerable planning and changes in personal affairs often precede decisions to retire, opponents of this option argue that changing the rules for people after they retire or for those close to retirement is unfair. Moreover, many would contend that federal workers traditionally have accepted a compensation package that provided superior pensions at the expense of lower pay. Further, some critics fear that future budgetary pressures may either erode the size of the proposed catch-up adjustment or delay it beyond age 62. In addition, CBO estimates that this option ultimately would diminish the number of military personnel with over four years of service, and would thus engender a slight shift to a less experienced and lower-skilled military force.

Proponents counter that in order to realize large deficit reductions, the Congress must consider alternative COLA provisions that generate considerable near-term savings. One possibility is to curtail adjustments for all nondisabled CSR, MR, and Social Security annuitants. (ENT-14 would restrict federal retirement and Social Security COLAs.) Other alternatives could pivot directly, or indirectly like this option, on the beneficiary's earnings capability. In general, financial hardships from smaller COLAs

would be more pronounced for disabled and survivor annuitants than for the relatively young retirees targeted by this option, who should be in a better position to face a temporary loss in real benefits. Presumably, these young retirees are able to supplement their federal pensions by working--as most military retirees already do.

FWF-03 MODIFY THE FEDERAL EMPLOYEES
HEALTH BENEFITS PROGRAM

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1988	1989	1990	1991	1992	
Outlays	150	260	350	520	660	1,940

The Federal Employees Health Benefits (FEHB) program offers health insurance coverage for federal employees and annuitants (that is, retirees) and their dependents. In 1987, the program will cover 3.9 million enrollees at an annual premium cost to the federal government of about \$3.5 billion. About half of this amount pays hospitals for services provided to FEHB enrollees.

Program costs could be reduced by reforming hospital reimbursement procedures. Most FEHB insurance carriers pay hospitals on a "reasonable" cost basis. An alternative reimbursement system could require carriers to use a prospective payment system similar to that now used by Medicare and by the Civilian Health and Medical Program of the Uniformed Services for military personnel. Under these programs, hospitals receive a flat payment per case based on a patient's diagnosis. Applying a similar reimbursement system to FEHB based on diagnosis-related groups (DRGs) would entail modifying the Medicare payment schedule to reflect the health care needs of younger patients. Any hospital that accepts federal reimbursement from Medicare could be required to accept the predetermined rate as payment for FEHB enrollees. A hospital would be prohibited from charging enrollees more than the DRG amount the carriers are required to pay.

Savings realized by FEHB insurance carriers under this prospective payment system would allow for lower premium payments by both enrollees and the federal government. The government's savings would reach \$1.9 billion, or 7 percent over five years. Savings to employees could reach \$1.3 billion over the same period. These estimates assume that annual increases in DRG reimbursements would be tied to the hospital price index. This index has grown at a much slower rate than FEHB insurance premiums, and the CBO baseline assumes this historical relationship will continue. Otherwise, a DRG system, by itself, would not necessarily save any money.

Advocates of bringing FEHB under a prospective payment system argue that hospitals would be less able to shift costs from Medicare to other third-party payers, like FEHB carriers, that currently reimburse without DRG limits. In addition, some proponents believe that an expanded DRG reimbursement system would also reinforce existing incentives for hospitals to contain costs. In their view, the current system drives up costs because hospitals tend to provide FEHB and other insured patients more amenities, more technology, and more staff than are necessary. A DRG system, by contrast, seeks to increase hospital efficiency while maintaining the quality of health care. Moreover, establishment of a DRG system for FEHB patients could help pave the way for all insurers to switch to a prospective payment plan.

Opponents of this proposal would voice many of the same concerns about jeopardizing the quality of health care that were raised during debate on adopting the DRG scheme for Medicare. Because the payment does not recognize costs actually incurred on behalf of each patient, hospitals would profit from cases where a patient was healthier than average and would suffer a financial loss when a patient was sicker than average. Under such economic incentives, opponents argue, some hospitals may avoid treating patients with severe illnesses, encourage profitable admissions of those with minor health problems who do not necessarily require hospitalization, or discharge some patients prematurely. Some critics are also concerned that, over time, DRG relative prices might diverge from costs, causing hospitals to accentuate the selection of patients on the basis of profit considerations. In addition, excessive costs might arise in setting up a DRG accounting system to serve the relatively small numbers of younger FEHB patients in many areas. Finally, in those areas with large numbers of federal workers and retirees, such as the Washington, D.C., metropolitan area, this option would concentrate the effects of lower FEHB payments on a relatively small number of hospitals.

FWF-04 REDUCE FEDERAL TRAVEL EXPENSES

Savings from CBO Baseline	Annual Savings (millions of dollars)				Cumulative Five-Year Savings	
	1988	1989	1990	1991		1992
Budget Authority	600	640	670	710	740	3,360
Outlays	560	580	620	650	690	3,100

The Executive Branch currently spends about \$6 billion a year on travel for civilian and military employees. Appropriation action requiring a 10 percent across-the-board cut in travel expenses would save, relative to the CBO baseline, \$3.1 billion over five years. About 70 percent of this savings would arise from Department of Defense travel, 60 percent of which is dedicated to the permanent change of station (PCS) of uniformed personnel. The 1987 appropriation for PCS is about \$2.5 billion, or about \$200 million below that for 1986. But total federal travel outlays in 1987 probably will increase by \$400 million, in part because of recently enacted legislation providing employees with higher reimbursement levels for lodging and per diem costs.

The General Services Administration and Department of Defense, which manage travel arrangements for civilian and military personnel, respectively, report that recent improvements in procurement methods have reduced government travel expenses. Despite these achievements, and despite across-the-board limits on the 1982 travel budget imposed by the Omnibus Reconciliation Act of 1981, as well as agency efforts to comply with the Deficit Reduction Act of 1984 by reducing travel as part of administrative expenses, the rise in governmentwide travel expenses appears unnecessarily high in relation to price increases. Federal travel costs per civilian employee increased by 41 percent between 1981 and 1986, while prices for travel services during the same period increased by only 33 percent. Although improvements implemented by agencies have prevented some unnecessary travel expenses, further changes in travel management or outright reductions in the amount of travel could produce additional savings.

Proponents argue that an across-the-board reduction in 1988 would prompt agencies to pursue cost-saving practices more aggressively. Such practices include better monitoring of costs, eliminating low-priority travel, and greater use of innovative procurement methods like negotiated discounts for high-volume travel, commercial charge cards, and travel offices.

On the other hand, enactment of a 10 percent reduction in travel expenses could create difficulties for programs that rely heavily on travel for effective management. Agencies with many field offices or contractors, for example, may face inefficiencies or added costs in other areas if required to make cuts in travel. Opponents of limiting travel point out that the risk of inefficiencies increases as possible management improvements and cuts in low-priority travel are exhausted. Furthermore, some substitutes for travel, such as purchasing telecommunications equipment, could result in higher near-term outlays. From this perspective, singling out travel is less preferable than a general reduction in administrative expenses, the approach taken in the Balanced Budget and Emergency Deficit Control Act of 1985. Finally, some critics argue that further limitations in military travel, which is largely PCS travel, would interfere with national defense activities. Savings from a travel cut could be offset by some additional costs as the number of trips home to the United States increases to compensate for extended overseas tours, and as recruiting requirements grow to balance the loss of personnel who do not reenlist because of extended tours. If military travel was exempted from the 10 percent reduction, however, the budgetary savings would greatly diminish.

FWF-05 TRIM THE SIZE OF THE FEDERAL
CIVILIAN WORK FORCE

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1988	1989	1990	1991	1992	
Budget Authority	--	710	1,500	2,400	3,350	7,960
Outlays	--	580	1,200	1,950	2,750	6,480

Appropriation and other action to trim the size of the federal work force, as contrasted to cuts in salaries and benefits, offers another way to reduce personnel costs. Eliminating the equivalent of 100,000 federal jobs through 1992 would reduce the civilian work force in nonpostal agencies by about 5 percent from its current level of 2.2 million and would generate outlay savings of \$6.5 billion over five years. For estimating purposes, a job is the work done throughout a year on a full-time basis. (For another item that would affect the size of the civilian work force, see DEF-18.)

Given normal employee turnover, the employment reduction specified in this option could probably be achieved without layoffs. Moreover, if the reductions were accompanied by commensurate measures to improve the productivity of operations, the level and quality of services would remain about the same. In fact, productivity gains of only 1 percent a year through 1992 would permit elimination of just over 100,000 jobs while maintaining existing levels of service. Should the demand for services increase, of course, greater improvements would be required.

Most agencies should be able, with little difficulty, to achieve such a rate of improvement. According to most recent data from the Department of Labor for the five-year period 1981 through 1985, productivity for civilian nonpostal agencies has grown at an average annual rate of 2.2 percent. Indeed, some large civilian agencies faced with limitations on funding and personnel increased their productivity over three years by an average of 3.2 percent per year. At the Department of Defense (DoD), however, greater effort may be required to achieve 1 percent annual growth of productivity in view of recent trends. The DoD annual rate of improvement for work performed by civilian and military personnel averaged only 0.7 percent during the last five years.